



Weekly Market Update

U.S. Stocks	
WEEKLY INDEX PERFORMANCE	
DJIA:	13181.91 (-83.56,-0.6%)
S&P 500:	1433.06 (-25.89,-1.8%)
S&P MidCap:	840.53 (-18.23,-2.1%)
S&P SmallCap:	400.49 (-9.56,-2.3%)
Nasdaq Comp:	2511.25 (-50.31,-2.0%)
Russell 2000:	755.42 (-22.41,-2.9%)
MARKET INDICATORS	
Strong Sectors:	Utilities, Consumer Staples, Telecom
Weak Sectors:	Energy, Financials, Consumer Discretionary
NYSE Advance/Decline:	1,205 / 2,292
NYSE New Highs/New Lows:	101 / 853
AAll Bulls/Bears:	45.9% / 40.0%

U.S. stocks extended their losing streak to three weeks as the sub-prime fallout and tightening credit markets took their toll on equities. Trading was volatile throughout the week with afternoon rallies on Monday and Wednesday producing daily gains while Friday's afternoon sell-off erased the week's meager gains. Friday's weak employment report was not well received by the markets. Financial shares remained under pressure. **Bear Sterns** shares plummeted after announcing another fund is in trouble and S&P raised concerns about its credit rating. Fellow brokers and all banks with significant mortgage exposure also continued to fall. Despite oil rising above \$78/bbl during the week, energy shares continued their recent slide pacing the market to the downside. **Nokia** shares rose after the handset maker reported strong quarterly revenue and EPS gains. Others announcing better than expected or in-line earnings included **Kraft, Starbucks, Proctor & Gamble** and **Whole Foods**. **Johnson & Johnson** gained after announcing a 4% staffing reduction to cut costs. Homebuilders fell Wednesday on bankruptcy rumors in the group. Auto makers announced July sales were significantly lower than the year earlier period and the big three's US market share fell below 50% for the first time. In merger news, **Dow Jones** finally agreed to be acquired by **News Corp.** after the Bancroft family signed off on the deal. Looking ahead, the Fed meeting will be closely watched this week for changes to the Fed's view on the risks to the economy in light of recent events. While equity valuations are compelling, stocks are likely to remain volatile over the near-term as investors gauge the likelihood of recent sub-prime events spreading to the broader economy.

See next page for U.S. Economy and Credit Markets Information.

US Economy and Credit Markets	
YIELDS AND WEEKLY CHANGES:	
3 Mo. T-Bill:	4.82 (-02 bps)
6 Mo. T-Bill:	4.87 (-03 bps)
2 Yr. T-Note:	4.40 (-12 bps)
3 Yr. T-Note:	4.39 (-09 bps)
5 Yr. T-Note:	4.47 (-09 bps)
10 Yr. T-Note:	4.67 (-08 bps)
30 Yr. T-Bond:	4.86 (-07 bps)
GNMA (30 Yr) 8% Coupon:	103-22/32 (6.57%)
Duration:	3.27 years
30 Year Insured Revs:	93.4% of 30 Yr. T-Bond
Bond Buyer 40 Yield:	4.80% (+03 bps)
Crude Oil Futures:	75.04 (-2.08)
Gold Futures:	674.40 (+14.30)
Merrill Lynch High Yield Indices:	
BB, 7-10 Yr.	8.00% (-18 bps)
B, 7-10 Yr.	9.04% (-23 bps)

A fourth straight week of gains sent Treasury yields lower once again. As in recent weeks, a driving factor in the price increase was sub-prime mortgage fears, which could impact both the equity and corporate bond markets. A rebound in the stock market helped push prices down Monday. Prices bounced back Tuesday on news that a mortgage lender is considering liquidation due to mortgage losses, though notably American Home Mortgage does not provide sub-prime loans. Potential improvement in the housing market, as seen in increased pending home sales dented prices Wednesday. Prices rose slightly Thursday on limited data. A weaker-than-expected July employment report helped drive up Treasury prices Friday. Expectations had been that payrolls would increase by 127,000 but showed an increase of only 92,000. In addition, the unemployment rate rose slightly to 4.6%. There is essentially unanimous agreement in the market that the Fed will leave rates unchanged when it meets this week. Economic reports (and related consensus forecasts) for the coming week include: Tuesday: 2Q Preliminary Nonfarm Productivity (2.0%) and Unit Labor Costs (1.7%) FOMC Rate Decision Expected 5.25% June Consumer Credit \$5.0B Wednesday: June Wholesale Inventories 0.4% Thursday: Initial Jobless Claims 310K Friday: July Import Price Index 1.0% July Monthly Budget Statement -\$35.0B.

Source: Bloomberg and Barron's